QUAD CITIES
Community
Foundation

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Thoughts from our investing consultant
February 2024

What a difference a year makes! 2023 finished the year with strong performance tailwinds that supported the financial markets, punctuating a year marked by performance gains out of nearly every asset class and category. With the worst cyclical inflationary pressures likely in the rearview mirror, market participants embraced the Federal Reserve's (Fed) mid-December implicit confirmation of an anticipated easing in its current restrictive stance. 2023 returns were welcomed after a difficult 2022, where we saw US stocks down over 18% and inflation over 9%. Compare that to 2023 where US stocks were over 26% and inflation a more moderate 3.1%. The story of 2023, however, can't be told without mention of the "Magnificent 7" (Google, Apple, Amazon, Microsoft, Tesla, Facebook, and NVDIA). In 2023 these seven stocks were up over 100%. Compare this to the remaining 493 stocks in the S&P 500, which were up only 15.4%. Clearly the primary driver of returns were based on how much of these seven stocks were in the portfolio. Luckily the portfolio embraces a diversified approach and the Magnificent 7 provided strong returns out of our US Large company managers. As an example, our US Large Growth investments were up over 42% for 2023! The Foundation's diversified approach delivered overall returns of almost 9% on the quarter and 17.3% for 2023.

Across the global markets, small company U.S. stocks outperformed their larger counterparts in the fourth quarter. Investments abroad benefitted from a weaker US Dollar (when the US Dollar declines versus other currencies it is a positive to US based investors). On the bond side of the ledger, after appearing on the verge of posting an unprecedented third consecutive calendar year decline, core bond returns rallied during the quarter, notching a 6.0% total return in the fourth quarter and a 5.7% gain for 2023. Similar to equity returns, interest rate sensitive areas like real estate rallied. In fact, US REITS (Real Estate Investment Trusts) posted the strongest quarterly return at 15.4%.

As we always do, it's important to stress that the portfolio is positioned for long-term growth to benefit future generations and near- term yield to benefit current generations. As a result, the Foundation continues to explore areas of attractive return potential relative to the risk assumed to reach those returns. As an example, The Foundation has begun the multi-year process of investing in private investments, where the return potential is larger than in the public markets. This process takes time and we will move in a deliberate fashion as we allow private investments to be a comfortable but meaningful portion of the portfolio.

The allocation for the Quad Cities Community Foundation remains valid and is positioned for long-term outperformance by stocks. As this specific handful of stocks cools and returns back to earth, the Foundation remains in a position to benefit from the next rally, regardless of what asset classes are participating. As a result, approximately 50% of the Foundation investments are allocated to US stocks with another 19% allocated to non-US stocks. Bonds total 25% and real estate, and cash total another 7%. We believe this diversified portfolio is the smoothest path to long-term returns so we focus on "trends" and not "events".

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